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**FISCAL IMPACT STATEMENT**

**LS 6284**

**BILL NUMBER:** HB 1365

**NOTE PREPARED:** Mar 23, 2009

**BILL AMENDED:** Mar 23, 2009

**SUBJECT:** Tax Assessment of Land Affected by Flooding.

**FIRST AUTHOR:** Rep. Van Haaften

**FIRST SPONSOR:** Sen. Kenley

**BILL STATUS:** 2<sup>nd</sup> Reading - 2<sup>nd</sup> House

**FUNDS AFFECTED:**     **GENERAL**  
                              **DEDICATED**  
                              **FEDERAL**

**IMPACT:** Local

**Summary of Legislation:** (Amended) Upon the filing of a petition in a calendar year by the owner of real property that: (1) is permanently flooded or rendered inaccessible by flooding; and (2) is not being used for agricultural purposes, this bill requires adjustment of property taxes payable in the calendar year and reassessment of the property for future years in which the flooding continues. It applies the reassessment provision to flooding that occurs after March 1, 2008. It authorizes a refund if property taxes are paid based on the assessment that applied before the reassessment for flooding. It requires the county auditor and the county treasurer to publish notice of the availability of a reassessment for flooding. It allows the county auditor to reduce the assessed value used to set property tax rates based on expected reassessments for flooding.

**Effective Date:** January 1, 2007 (retroactive); January 1, 2008 (retroactive).

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** A number of counties currently provide a combination of property tax replacement credits, homestead credits, and residential property tax credits funded from proceeds of various local option income taxes. Currently, 50 counties provide additional homestead credits that are paid with proceeds from a combination of county option income taxes (COIT) and county economic development income taxes (CEDIT). Additionally, 19 counties use a local option income tax to provide additional credits to their choice of homesteads only, residential property only, all property, or a combination of the above. Homestead credits funded from COIT proceeds could decrease if this proposal results in an increase in the number of taxpayers who file for reassessment. COIT proceeds that are not used for county homestead credits

are distributed to civil taxing units as certified shares. CEDIT proceeds that are the result of the additional rate allowed for homestead credits may only be used for homestead credits.

The bill also directs county auditors and county treasurers to inform taxpayers that they may petition for a reassessment of their property because of flooding. Counties may incur additional operating expenses in holding public hearings, if applicable, and advertising in the appropriate media outlets.

**Explanation of Local Revenues:** (Revised) This bill enables an owner of real property not being used for agricultural purposes (business and other personal property are not included), that has been permanently flooded or to which access over land is permanently prevented by flooding, to petition the county assessor for a reassessment of the property. If approved, the owner is entitled to a refund of the difference in any property taxes paid and the amount of property taxes computed based on the reassessment of the property. The taxpayer would be reimbursed from the county general fund. The reassessment would remain in effect until rescinded by the assessor. The bill specifically allows the county auditor to reduce the assessed value of the county taxing unit to enable the unit to absorb the effects expected to result from having to pay refunds to taxpayers because of the reassessment.

For the purposes of this bill, there are three categories of taxpayers.

Category 1: For taxes payable in 2009 and after, these are taxpayers whose property was flooded after they paid the second and final installment on their preceding year's taxes (in November of the preceding year), but before they could pay the first installment on their current year's taxes, in May of the current year. The petition for reassessment must be filed by December 31 of the current year. If the petition is successful, the reassessment would apply to taxes payable in the current year and the year immediately after. The taxpayer would be entitled to a refund of the difference between any property taxes paid and the amount of property taxes computed based on the reassessment of the property.

Category 2: For taxes payable in 2009 and after, these are taxpayers whose property was flooded after they paid the first installment on their current year's taxes in May, but before they could pay the second installment in November. The petition for reassessment must be filed by December 31 of the current year. If the petition is successful, the reassessment would apply to taxes payable in the current year and the year immediately after. For taxes payable in the current year, the taxpayer would be entitled to a refund of difference between the November installment if the property had not been flooded and the amount of the November installment computed based on the reassessment of the property. If the property taxes are payable by a method other than two (2) annual installments, the refund would be one-half of the difference between the property tax liability for property taxes first due and payable in the current year and the amount of property taxes computed based on the reassessment of the property. For taxes payable in the year immediately after, the taxpayer would be entitled to a full refund of the difference between any property taxes paid and the amount of property taxes computed based on the reassessment.

Category 3: These taxpayers owned property that was flooded after the 2008 assessment (in March 2008), but before they could pay the second installment on their taxes in November 2008. The petition for reassessment must be filed by July 1, 2009. If the petition is successful, the reassessment would apply to taxes payable in 2008 and 2009. For taxes payable in 2008, the taxpayer would be entitled to a refund of half the difference between any property taxes paid and the amount of property taxes computed based on the reassessment of the property. For taxes payable in 2009, the taxpayer would be entitled to a full refund of the difference between any property taxes paid and the amount of property taxes computed based on the reassessment.

This bill has two impacts on local taxing units: the first, relatively short term, occurs in the first two years after a successful petition for reassessment; the second one, which begins in the third year, could be more potentially long term. For taxes payable in the first two years after a reassessment petition has been approved, refunds would be paid out of the county unit general fund. This bill allows reassessment petitions to be filed after assessed values (AV) have been certified and tax rates are set for the calendar year. This would impact revenues in the first year after a successful petition. Successful petitions filed after tax rates are set would result in a reduction of property tax revenues for the county unit. To cover any refunds due in the second year, county auditors may reduce the certified AV by the amount needed (up to 2% of total AV) to absorb the effects expected to result from successful petitions.

The second, more potentially long-term impact, occurs after the first two years and lasts until the county assessor modifies or rescinds the reassessment. This affects the local taxing units in which the reassessed property is located. During this period the tax base would be reduced by an amount equal to the difference between the original value of the property and the current reassessed value. This is equivalent to a tax deduction until the basis for the deduction changes. This reduction in the tax base would result in a tax shift to all other property in the form of an increased tax rate. The amount of the tax shift and the size of the increase in the tax rate is indeterminable at this time. Total local revenues, except for cumulative funds, would remain unchanged during this period. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

**State Agencies Affected:**

**Local Agencies Affected:** County auditors; County treasurers; County assessors.

**Information Sources:**

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